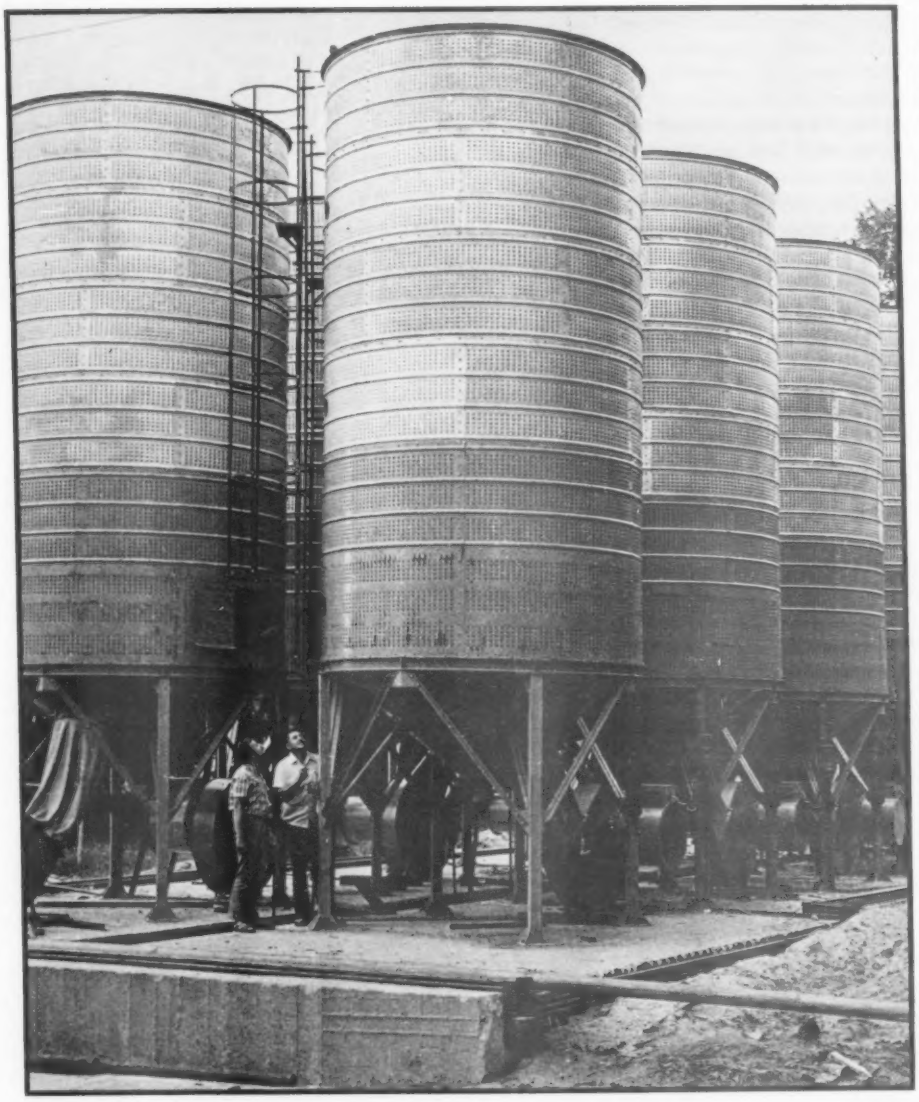
Foreign Agriculture

December 4, 1978

Foreign
Agricultural
Service
U.S. DEPARTMENT
OF AGRICULTURE



2 Four Issues Seen Shaping Future of U.S. Farm Trade

5 Cattle Herd Reduction Slows In Australia

6 Iran's Dairy Push Ups Imports Of U.S. Holsteins

8 World Food Prices

10 Changing Policies Shift USSR From Net Farm Exporter To Importer

14 United Kingdom Expands Imports of Cotton From Colombia, Turkey

Grain silos on a collective farm in the Soviet Union.

Four Issues Seen Shaping Future Of U.S. Farm Trade

Trade is the lifeblood of U.S. agriculture, and farm exports are the bright spot in U.S. trade—facts driven home by the record $27.3 billion of U.S. farm exports in fiscal 1978 and agriculture's trade surplus that year of nearly $14 billion. Four key issues will influence this trade in the future, said Dr. G. Edward Schuh, Deputy Assistant Secretary of Agriculture, at the National Food and Agricultural Outlook Conference in Washington, D.C., in mid-November.

Trade is important to any assessment of the outlook for either the U.S. economy or agriculture. The corollary, of course, is that developments in other countries, both in terms of policies and in terms of output, are important influences on how well both U.S. farmers and consumers will fare this next year.

The shape of that trade in the future will be influenced by:

- The multilateral trade negotiations;
- Changes in currency values;
- The need for positive adjustment policies; and
- Interactions between domestic and trade policies.

The Multilateral Trade Negotiations

After 4 years of rather protracted and difficult negotiations, this ambitious effort was to have been wrapped up by last July 15. Things did not work out that way, and the next target date is December 15.

Here are at least some of the general issues:

The first and perhaps foremost point to be noted is that in the current round of discussions an effort has been made from the beginning to make agriculture an integral part of the negotiations. In the Kennedy round, agriculture was negotiated on a separate track, with the result that at the last minute the overriding difficulties with this sector caused negotiations to be closed with little progress on agricultural issues. This time the U.S. Government has repeatedly stated, "No progress in agricultural matters, no MTN."

U.S. strategy on agricultural trade has focused on two main objectives:

- A reduction in both tariff and nontariff barriers to trade, and
- An attempt to establish stronger "rules of the game" on trade matters.

The latter has had two main elements: Attempts to agree on rules that will provide more discipline on policy measures such as export subsidies; and attempts to negotiate commodity agreements, with the emphasis, of course, on an International Wheat Agreement.

In attempting to obtain trade liberalization per se, principal interest has focused on the complex bundle of issues among industrialized countries. A similarity of climate among these countries causes them to have a broad overlap in commodity mix, which intensifies agricultural trade disputes. This problem is exacerbated by the tendency of advanced countries to protect their agriculture, and to deal with the income problem of that sector by means of interventions in the product markets. The European Community's Common Agricultural Policy is a prominent example of such protection; the United States does the same thing with dairy, sugar, and a few other commodities.

The conflict between the EC and the United States has been particularly acrimonious, and is a continuing source of friction and political difficulties. The United States would like to have greater access to the Community's markets. But the problem is not just one of access. With product prices set above market clearing levels, the Community often has to resort to export subsidies to dispose of the surpluses it produces as a result of those high prices. These subsidies tend to be disruptive of U.S. markets and are viewed as unfair competition by U.S. producers. We have lost a large portion of our Middle East markets in poultry because of these policies, and this year once again finds U.S. grain markets threatened by subsidized exports from the Community.

Protective measures give rise to other problems as well. The use of quotas and other nontariff barriers to trade, and such policies as the variable levy as practiced by the European Community, in effect isolate national and/or regional economies from market forces. When combined with export subsidies, these policies impose a great deal of instability on international markets because they reduce the scope for market forces to work, while at the same time imposing additional shocks on the system.

Market instability, of course, gives rise to pressures for further intervention in self-defeating attempts to protect domestic agriculture from external shocks. It also generates strong incentives for self-sufficiency, which leads to inefficient use of resources and a reduction in longer term potential trade.

One can easily despair at obtaining trade liberalization among industrialized countries, since the battle has been long and progress at times quite fitful and slow. But the alternatives are bleak indeed. As a relatively open economy, U.S. consumers and producers bear a disproportionate share of the instability in international commodity markets. This instability poses a threat to U.S. domestic policies and to the U.S. stance in favor of freer trade.

Equally as important, failure to make progress in liberalizing agricultural trade poses a threat to the relatively open trade we have in industrial products. In fact, a very real danger we now face is the threat posed by the urge to retaliate by becoming more protectionist on industrial products. Such policies would undo the considerable progress we have made in liberalizing trade in industrial products in the post-World War II period, and cause us to

sacrifice the very real gains we have realized from such trade.

The attempt to negotiate international commodity agreements is an important element in U.S. attempts to obtain better functioning international markets. We have signed an International Sugar Agreement, although Congress has not yet ratified it, and are actively engaged in negotiating an International Wheat Agreement.

Commodity agreements are not directly trade expansionist. But if they are successful in adding stability to international markets, their longer run effects can be in that direction. Supply assurance reduces the incentive for high-cost self-sufficiency.

In the case of the proposed wheat agreement, the U.S. goal has been to obtain a wider sharing of the burden of adjustment to changing conditions in the market. In the past, the United States has been forced to bear a disproportionate share of the burden. Hopefully, an agreement will establish mechanisms for a wider sharing of the burden.

The past record with international commodity agreements causes many to be less than sanguine about their efficacy and longevity. One cause of the past failures, however, has been the establishment of agreements that are too ambitious. In the agreements now under discussion, the goals have been kept rather modest. The attempt is to obtain concerted actions in a flexible way, with buffer stocks providing the means to offset short-term fluctuations in market forces.

The final element of the trade negotiations is the attempt to establish well-defined rules for trade interventions. The effort here focuses on rules for the evaluation of products by customs, rules for government procurement, safeguards, export subsidies, and countervailing duties. The latter two are probably the most important from an agricultural standpoint.

Export subsidies are extensively used for agricultural products, and countervailing duties are the logical countermeasure. Agreement on rules that provide some discipline in the use of these measures can limit the extent to which they are used and reduce the often capricious way in which both are implemented. Success in this endeavor will reduce both the frequency and size of shocks to international markets and thereby add to stability.

Changes in Currency Values

Discussions of monetary exchange rates have dominated the news this past year as the dollar has fallen on international markets. Exchange rates are important since they influence the extent to which a country realizes its comparative advantage in international trade. Interventions in foreign exchange markets are an important means of taxing or subsidizing agriculture, and can be an important source of disturbances to international commodity markets. By the same token, changes in the exchange rate can be an important means by which changing conditions in the international markets are transmitted to the domestic economy.

To understand the role of exchange rates, it is important to recognize that distortions in these rates are equivalent to explicit tariffs and subsidies. Trade theory teaches us that a correct measurement of trade intervention must take account of both the tariff or subsidy and the degree of distortion in the exchange markets. An overvalued currency is a subsidy on imports and a tax on exports, while an undervalued currency is equivalent to a subsidy on exports and a tariff on imports.

Despite this equivalence between distortion in the exchange markets and interventions in trade, exchange rates have received little attention in the current round of trade negotiations. However, the United States does favor floating exchange rates, and has defended such a policy in international forums. Its belief in the efficacy of such a policy may be one of the reasons for neglecting it in trade discussions, although history amply demonstrates how important distortions in exchange rates can be.

A number of issues involving exchange rate policies are now before us. Perhaps most important is the persistent decline in the value of the dollar. The dollar's sharp drop in recent months has increased the cries for protectionist measures in other countries. The problem here is not only the improved competitive position that such a decline gives the United States, but the advantage it gives to countries that keep their currencies tied to the dollar. Hence, Germany and other European countries face not only stronger competition from the United States, but competition from Brazil, Mexico, and South Korea as well. When inundated by goods from these countries, at the same time that their own export industries experience reduced demand from abroad, the appeals for protection are understandable. But these pressures make trade liberalization quite difficult, and may eventually prejudice the multilateral trade negotiations.

The fall in the value of the dollar also poses a threat to international capital markets. These capital markets have become an important instrument of economic intercourse, and are increasingly a means by which nation-states finance their economic development. But the sharp decline of the dollar has created substantial problems for banks, insurance companies, and other financial institutions. The losses on their dollar assets have in some cases been huge, with the result that the perceived risk in these markets is now larger.

The decline in the value of the dollar may also be giving false signals to U.S. agriculture. It seems clear that the strength of U.S. agricultural exports this past year is due in no small measure to the fall of the dollar. If the new rates are in fact equilibrium values, all will be well and good. But if the dollar is now undervalued, as many believe, these strong export markets may be in part an illusion. As the dollar recovers to its equilibrium level, a rather sizable adjustment problem may be forced on the agricultural sector.

The dollar's decline has also made the present and recent participants in the Common Market "snake" more desirous of using that device to insulate themselves from the gyrations of the dollar. The "snake" is a scheme whereby the currencies of the six member countries are linked together for a common float against other currencies. Each member currency is supposed to hold within 2¼ percent above or below its fixed level against each other currency, but the bloc of currencies is free to float against outside currencies.

Because of the fluctuations of the dollar, discussions are now underway to create an eventual European Mone-

tary Union with a common currency managed by one central bank.

The difficulty with this proposal is that it has the cart before the horse. There are as yet no clear arrangements for pursuing a common economic policy. Moreover, there are substantial differentials in the rates of inflation among the proposed member countries. Under these conditions, the stability of the new European currency unit will require sizable interventions in exchange markets. Such interventions will tend to generate world inflation and damage sound monetary and fiscal policies followed by other countries. This in turn will nurture protectionist sentiments and the desire to be isolated from international market forces.

If such a common currency could be established, it might have a salutory effect on U.S. policy. The emergence of a viable competitive currency might impose a discipline on U.S. economic policy that was lost when the value of the dollar was severed from gold. But whether this ambitious scheme can be realized remains to be seen.

A more likely longer term solution to the problem of international monetary disturbance is the establishment of a true world bank. Such a bank would provide for the world the same functions that central banks provide for individual countries. It would manage the world stocks of money, hopefully in a sound fashion, and provide the means whereby individual countries would deal with their balance-of-payments problems. Although the International Monetary Fund is a world bank of sorts, we are still a long way from having a true central bank function.

The final exchange rate issue for agriculture is the emergence of the Green Currencies in Europe. These currencies constitute a multiple exchange rate system whereby members of the European Community were able to back away from the common prices for agricultural products that in the beginning were a central element of the Common Agricultural Policy. All but one of the nine member countries (Denmark) now maintain an exchange rate for agricultural products that is different than the exchange rate for trade in other products and for financial transactions.

The significance of these exchange rates for U.S. agriculture is that they have reduced the incentive for adjustment within the Community. Any delay in making that adjustment only furthers the day when trade liberalization will come to the Community, with the attendant advantages discussed earlier.

Need for Positive Adjustment Policies

Positive adjustment policies are a much neglected aspect of trade policy. The concept itself is straightforward. Efficient trade benefits society as a whole, with larger exports financing a higher rate of economic growth in the aggregate and imports providing lower cost goods to consumers and cheaper raw materials to the producer sectors. The problem is that these benefits are widely dispersed in society, while individual sectors in the economy may be harmed by low-priced imports.

Efficient policy would require that resources be transferred from those sectors that are no longer competitive to those where their contribution to society is higher. These adjustments give rise to the international division of labor, which plays such a prominent role in trade theory, and which is the source of the gains from trade. Moreover, the gains from trade to society at large are expected to be sufficiently large that resource owners can be compensated for their adjustment costs in transferring to more productive sectors from the sectors that cannot compete with lower priced imports.

So much for principle. In practice, the problem is a great deal more difficult. Few people like to leave their chosen vocation or profession, especially if the need for adjustment comes late in life. Hence adjustment programs are often referred to disparagingly as "burial expenses."

Similarly, there are serious questions about just how far the international division of labor should be allowed to go. Legitimate questions about national security are raised when a nation's steel industry threatens to go down the tube, or when the United States sees an important share of its electronic industry transferred to other lands. Countries, such as Japan, which now imports more than 50 percent of its caloric intake, reasonably ask just how much further they should go in becoming more dependent on other countries for their supply of foods, just as many in the United States question how dependent we should permit ourselves to become on foreign sources of petroleum.

Two problems complicate the adjustment process. First, the transfer of labor is more difficult when the economy is operating at less than full employment. And, in fact, an important source of the growing pressures for protectionism in recent years is due to the sluggish growth in industrialized countries and the relatively high rate of unemployment. Unfortunately, this sluggish growth has occurred at the same time that there has been a major realinement of exchange rates, and with it some major shifts in competitive advantages.

Competitive threats from foreign countries have become more severe at the precise time that countries find it more difficult to make the necessary shifts in their domestic economies.

The second complicating problem is when foreign competition threatens a sector that inherently faces adjustment as development proceeds. This is the case with agriculture and helps to explain why trade interventions tend to be more severe for this sector of the economy than they do for others. The nature of the development process is such that labor resources typically have to be transferred from agriculture to other sectors as development proceeds. This adjustment process can be difficult in its own right, as our own historical experience amply demonstrates. When a trade adjustment is placed on top of that "development" adjustment, the problem can be doubly severe.

This perspective can help in understanding the high protective barriers the European Community has put around its agricultural sector. Member countries have been in that stage of their development that required a net reduction in their agricultural labor force, especially in light of the existing potential for technological modernization.

In the case of the EC, this problem has been exacerbated by what are referred to as structural factors. As with the United States in the late 1950's and early 1960's, the owner-operators in agriculture were older than the

rest of the population because of the selective effects of past outmigration.

More importantly, however, land holdings in member countries are particularly fractionated and dominated by small parcels. When combined with the attachment to land ownership that characterizes Europe because of political instability over the years, the adjustment problem has been especially difficult.

Unfortunately, the Community missed a golden opportunity to deal with this adjustment problem during its post-World War II economic boom. When demand for labor for its expanding nonfarm sector was growing rapidly, the EC opened its borders to migrant labor from other countries in order to alternate wage pressures. In the absence of such policies, outmigration from agriculture would undoubtedly have been greater and a more rapid reorganization of agriculture would have taken place. The demands for protectionism would in turn have been substantially less.

Devising innovative means to deal with the adjustment problem, both here and abroad, is the key to obtaining further significant gains in trade liberalization. Many of these policies have to be devised nationally to suit local conditions. They will need to focus on the labor markets, but in some countries of the EC they will have to deal as well with rather difficult land tenure problems.

There is also a place for international cooperation in dealing with the adjustment problem. An International Adjustment Fund—which I have recommended before—would help finance projects designed to facilitate the adjustment process. The rationale for such a fund is that the world at large benefits from freer trade. Yet an individual country finds it difficult to internalize the political trade-off from such trade since the economic exchange is seldom perceived as between domestic producers and consumers, but rather as a loss by domestic producers to the benefit of foreign producers.

Resources for this fund would come from individual countries, perhaps based on their gross national product, since this would be a reasonable proxy for consumer benefits. Use of the funds from this source would be an application of the well-known compensation principle of welfare-economics fame. Its strength would be the use of international funds to solve what is perceived as an international problem.

Linkages Between Domestic and Trade Policies

Domestic U.S. agricultural commodity programs were predicated on strong export markets. However, the maintenance of strong export markets is equally dependent on maintaining appropriate domestic policies. Domestic policies that price U.S. commodities out of international markets can alter the U.S. trade situation rather significantly.

Fortunately, both the 1973 and the 1977 Food and Agriculture Acts took long strides toward domestic commodity policies that help us to remain competitive in international markets. The establishment of broad price corridors for products that are important in international trade is an important example. Market forces are allowed to work within these corridors with the result that there is

Continued on page 16

Cattle Herd Reduction Slows in Australia

Australian ranchers are trying to boost incomes and improve liquidity by shifting to more profitable enterprises in a trend that began in 1975 and accelerated during the drought of the past 2 years, according to dispatches from Brice K. Meeker, U.S. Agricultural Attaché in Canberra.

In addition, they are selling cattle at prices which, while bringing good returns now, could go higher in the future, although the selling pace seems to be slowing somewhat.

However, the sales activity is likely to have little effect on red meat exports, which are expected to be about the same in 1978 as in 1977.

The movement away from cattle was particularly apparent in shifts from the raising of dairy and dairy beef cattle in states where production of wool, sheepmeat, and arable crops—especially wheat—provides an alternative to cattle production. In New South Wales, Victoria, and South Australia, where larger calf slaughter resulted in the highest percentage drops, cattle numbers in early 1978 averaged about 28 percent below the peaks of 2-3 years ago. The shift out of cattle raising by many producers is expected to continue.

Sheep numbers also are seen dropping between 1977 and 1978.

Swine numbers continue relatively stable, but pork prices—like those of beef and sheepmeat—are strengthening.

Cattle and calf slaughter rates are relatively high and although beef and veal production will decline somewhat from the high 1977 level, the drop will not be as great as earlier anticipated. In consequence, beef and veal production will likely exceed 2 million tons but only by a slight margin. Some slowing down of both cattle slaughter and production of beef and veal was expected during the last half of 1978.

Cow and heifer slaughter remained high during the first half of 1978. However, there are signs that this strong reduction is easing and will decline significantly in the months ahead.

Sheep slaughter will probably fall off markedly in 1978, possibly dropping by 10 percent from 1977's 30.6 million head to 27.4 million in 1978. The declining sheepmeat output will, in percentage terms, be about the same. Output is expected to fall from some 539,360 tons to an estimated 482,300 tons in 1978.

In contrast, lamb slaughter and lamb meat production, while somewhat lower than in 1977, are seen holding up well with only marginal decreases to 14.9 million head and 247,300 tons.

Pigmeat production is expected to rise marginally.

Australia's exports of fresh, chilled, and frozen

beef and veal in 1978 are expected to rise to 755,000 metric tons (product weight), up from 730,921 tons. Some 348,000 tons will be shipped to the United States, representing augmented U.S. imports under the voluntary restraint program.

Analysts at the Department of Primary Industry see no prospect of a 1978 market for Australian meat in the Soviet Union. Sales to Eastern Europe also are expected to be sharply lower but through June they had reached 20,000 tons, primarily to Yugoslavia. Exports to Mideastern markets continue to expand, as have sales of beef and veal to South Korea.

The Australians want to get a share of the Japanese quota for high-quality beef, but the product specifications pose some difficulties—at least in the near future. As an example, the Japanese Livestock Industry Promotion Corporation (LIPC)—a quasi-governmental organization that imports most of Japan's beef, granted all of the 1,500 tons of high-quality beef in a 5,500-ton beef tender to the United States. Australia got virtually all of the lower grade quota.

It is anticipated that mutton exports will decline from the 1977 level simply because output may not be able to support the current high level. However, lamb exports are seen rising from 37,300 tons to 50,000 tons. Combined lamb and mutton exports are expected to drop.

For some time, Australian exporters of live sheep and union employees of meat slaughter plants have been quarreling over the potential danger to the country's packing industry from high-volume sheep shipments to the Near East. The union members want such live sheep movements limited.

The Bureau of Agricultural Economics, which has been studying the merit of the unionist demands, is expected to release its report soon. Meanwhile, it is forecast that live sheep exports will remain sizable so long as demand is strong.

Since 1974, the Western Australian Lamb Marketing Board has negotiated annual contracts with various Mideastern importers. The current contract—which took effect July 1, 1978—was for around US$17.4 million. It includes shipments of frozen meat to Iran, fresh sheepmeat and sheep exports to various Persian Gulf markets, and vacuum-packed sheepmeat to Kuwait and Muscat.

While exports of Australian wool are not expected to climb substantially, farmers believe the Australian Wool Corporation will continue to liquidate its sizable wool stocks in an orderly and profitable manner. More than 1.9 million bales were held by the Corporation on December 1, 1975, but on June 30, 1978, they stood at 900,000 bales. This is the first time they have fallen below the 1-million-bale mark since mid-1974.

Australia's first official estimate of the 1978 wool clip was for 684.5 million tons, greasy basis, or about a 2 percent gain over the 1977 clip of 673.7 million tons.

Wool producers are cautiously optimistic that wool prices will climb somewhat and this was reflected in the Government's recent decision to raise the minimum wool reserve prices.

Despite a drop in sheep numbers on farms, an inincrease in the number shorn this season is expected, owing to favorable feed conditions and a reduced number sent to slaughter. □

Iran's Dairy Push Ups Imports of U.S. Holsteins

By Paul J. Ferree

Iran—the leading U.S. market outside North America for dairy-breeding cattle—is expected to continue increasing its cattle imports substantially this year as a result of continued Government emphasis on dairy expansion.

Iran's agricultural ministry expects to import 20,000 head of dairy cattle in 1978/79, most of which should come from the United States. U.S. exports of dairy-breeding cattle to Iran in calendar 1977 jumped 30 percent from year-earlier levels to 9,512 head. The United States accounted for 85 percent of the 13,500 dairy animals imported in 1977.

Since 1973, Iran's agricultural ministry has set its highest priority on supplying more animal protein for Iran's population. The ministry has stressed the development of modern dairy, poultry, and livestock feeding enterprises.

Aided by transportation subsidies, grants for feasibility studies, low-interest loans, intensified technical assistance, and training activities, the progress in these sectors has far outpaced the more traditional activities of cropping and extensive grazing.

Much of the Iranian Government's interest has been in meeting its commitment to supply ¼ liter of milk daily to each of some 7 million school children and provide free milk to mothers of young children.

The Food and Agriculture Organization (FAO) estimated Iran's 1977 production of milk (cow, buffalo, goat, and sheep) at 2.2 million metric tons.

With some 10 milk pasteurizing plants of varying capacity already in operation, the Iranian Government has contracted for construction of 11 additional plants with daily capacities of 200 tons. These plants were to be built during the 1973-78 Five Year Plan that just ended. Some 200,000 head of high-grade dairy cattle were to be imported during this same period.

Although actual achievement fell far short of target, four of the new dairy plants have been completed and the others are under construction. Nearly 40,000 head of dairy cattle were imported by air during March 21, 1973-March 20, 1978. In addition to the United States, other cattle suppliers were Israel, the Netherlands, Canada, West Germany, and Australia.

Iranian dairymen import primarily Holsteins. Specifications generally call for the animals to be first-calf heifers, 5-7 months pregnant, bred to a pedigreed bull of the same breed, and with a minimum annual production potential of 6,000 liters of milk at the rate of

The author, formerly U.S. Agricultural Attaché in Tehran, currently is assigned to Bangkok.

These Holsteins eating freshly chopped alfalfa in Iran are largely of U.S. origin. Iran is the leading U.S. market outside North America for dairy-breeding cattle. Iran is expected to import 20,000 head of dairy cattle in 1978/79.

3.3 percent butterfat each.

Bulls to be imported must be registered and come from dams having a production of at least 10,000 liters. In addition, Iran's Ministry of Agriculture and Rural Development must have given prior approval for the importation. Information on Iran's current official health requirements can be obtained through the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture.

The Iranian Government pays the entire air transport cost of imported cattle (amounting to roughly $900-$1,100 per head for bred heifers from the United States) as an incentive to dairy development.

In addition, Iran's Agricultural Development Bank (ADBI) will pay 85 percent of a feasibility study for dairying or similar enterprises and provide 10-year loans to cover up to 80 percent of the construction and equipment cost at 7-8 percent interest.

Sixty percent of the f.o.b. value of the imported cattle is also financed through the ADBI at 8 percent annual interest for 5 years.

Government subsidies also reduce the cost of feedgrains, protein meals, and byproduct feeds. Dairymen also receive an 87-percent Government milk subsidy over the price paid by pasteurizing plants.

These incentives, as well as the favorable returns that can be obtained for culled cows and fed bull calves for slaughter, continue to encourage the expansion of dairying in Iran.

All indications point to continuation of the dairy cattle freight subsidy and other incentives throughout the current development plan and continued high demand for U.S. dairy cattle.

Iranians consume more yogurt, ghee, and cured cheese than fresh milk. Sheep and goat milk still account for more than 40 percent of domestic dairy production. As modern dairies develop and expand, the public consumes more fresh milk, butter, and cheese. With growing affluence and urbanization, consumption is growing faster than domestic production, necessitating dairy product imports.

In 1976/77, Iran imported over 31,400 tons of dried milk, 26,000 tons of butter, 25,000 tons of cheese, and other dairy products totaling $94 million. Dairy product imports this year are expected to be 20-25 percent higher than those of last year.

While the United States supplies relative little of these dairy product imports, Iran's domestic dairy development does provide an important outlet for U.S. farmers. Besides the nearly 10,000 head of U.S. dairy animals exported to Iran last year, A-I firms supplied virtually all of the 50,000 ampules of bull semen, and a large part of Iran's imported feedgrains were of U.S. origin.

Corn, sorghum, barley, soybean meal, and cottonseed meal imports are expected to increase significantly this year, fueled by Iran's fast-growing poultry and livestock industries.

In addition, Iran has expressed interest in acquiring several thousand tons of alfalfa pellets from the United States. □

U.S. Food Prices Climb Less Than 1 Percent During July-September

During the 3-month period July-September 1978, food prices in the United States have risen by less than 1 percent, according to the U.S. Bureau of Labor Statistics.

In fact, the U.S. food price index (FPI) for September of this year—at 186.4 (1970=100)—was the same as that recorded for August.

Of the 16 countries regularly surveyed by FAS, only Canada (with an FPI of 214.0) and West Germany (143.6) reported FPI declines from August to September.

West Germany continues to have the lowest FPI of the countries reviewed, followed by the Netherlands (163.4), Belgium (174.9), and the United States.

U.S. Agricultural Attachés report monthly FPI's for selected countries on a bimonthly basis, as well as report prevailing prices for selected food items in the capitals of the countries to which they are assigned.

Since prices in local currencies are converted to U.S. dollar prices on the basis of exchange rates on the day of the survey, the devaluation of the dollar against major foreign currencies is responsible for some increases in the dollar price for food in foreign capitals.

By Carol Halverson, Commodity Programs, FAS.

Meat. In more than half of the capital cities shopped by the Attachés on November 1, red meat prices were up.

Increases in beef prices were highest in Buenos Aires, where they jumped 44 percent from the September 6 survey.

However, in London, the Attaché reports a 7-percent drop in beef prices during this time period, partially as a result of unseasonably warm weather.

Pork prices rose in most foreign capitals with 10 of the 16 countries shopped reporting price gains for pork chops.

Over the past 2 months, pork prices in Denmark have strengthened by 6-10 percent because of strong demand in export markets.

The Attaché in Ottawa reports that retail hog prices continue to rise despite year-to-year increases of more than 9 percent in domestic hog slaughter. Both reduced pork imports from the United States because of the dollar exchange level and strong consumer demand have contributed to higher pork prices.

In addition, high cattle prices have helped to maintain the market price for hogs in Canada.

In The Hague, prices for pork continue to trend downward, except for those of bacon, which is increasingly thought of as a specialty item.

Ham prices in The Hague are 1.1 percent lower than in September, and 5.5 percent less than in November 1977.

In Brussels, retail prices of fresh and processed pork (excluding bacon) dropped significantly. Decreases ranging from 1 to 5 percent reflected the continuing downward trend of hog prices.

Despite seasonal factors that normally reduce meat prices, continuing tightness in pigmeat supplies in the United Kingdom is holding pork and bacon prices firm.

Food Price Index Changes in

Country	Latest month	Index 1970=100
Argentina	Sept.	55,669.3
Australia	Sept.	220.9
Belgium	Sept.	174.9
Brazil	Sept.	889.2
Canada	Sept.	214.0
Denmark	Sept.	223.5
France	Sept.	218.7
Germany	Sept.	143.6
Italy	Sept.	279.6
Japan	Sept.	223.7
Mexico	Sept.	321.9
Netherlands	Sept.	163.4
South Africa	Sept.	240.8
Sweden	Sept.	213.1
United Kingdom	Sept.	318.9
United States	Sept.	186.4

[1] Based on official price indexes.

FAS Survey of Retail Food Prices in Selected World Ca

[U.S. dollars per kg [1] or units as indicated, converted at current ex

City	Steak, sirloin, boneless	Roast, chuck, boneless	Pork chops	Roast, pork, boneless	Ham, canned	Bacon, sliced, pkgd.	Broilers, whole	Eggs, dozen	Butter	Margarine	Cheese: Edam, Gouda, or Cheddar	Milk, whole, liter
Bonn	13.52	7.27	6.30	12.84	([2])	9.20	2.42	1.28	4.35	2.39	3.42	9.59
Brasília	2.02	1.77	3.99	4.74	6.18	6.23	1.63	.74	2.40	1.32	4.94	.27
Brussels	12.75	6.60	5.49	5.70	7.18	5.39	3.07	1.24	5.18	2.25	6.15	.62
Buenos Aires	2.24	1.16	2.24	([2])	([2])	3.92	1.89	.65	2.84	2.55	3.52	.26
Canberra	6.59	2.85	4.45	3.98	7.26	5.75	2.36	1.16	2.11	2.14	3.83	.49
Copenhagen	19.16	7.41	8.97	9.36	7.82	7.92	2.80	2.09	4.14	1.96	([2])	.61
London	9.36	4.55	4.55	3.50	3.59	5.25	1.79	1.13	2.93	1.73	3.33	.42
Mexico City	3.20	3.11	3.03	3.60	([2])	3.58	2.15	.60	3.51	1.71	7.20	.29
Ottawa	4.92	3.43	4.77	4.11	5.49	3.75	2.14	.82	2.63	2.40	4.22	.61
Paris	8.67	4.97	6.28	6.42	9.09	10.34	3.28	.69	5.20	1.36	4.46	.49
Pretoria	4.25	3.49	3.08	4.02	4.46	3.38	([2])	.68	2.11	1.73	2.35	.38
Rome	9.68	8.47	4.84	4.84	5.57	4.82	3.01	1.26	3.45	1.94	4.45	.48
Stockholm	13.73	8.72	6.71	12.46	7.95	6.88	4.15	1.92	4.46	2.55	5.94	.46
The Hague	11.83	6.92	5.44	5.92	([2])	9.85	2.15	.96	7.47	.63	5.64	.51
Tokyo	34.99	23.04	11.18	9.51	13.69	8.73	4.14	1.04	3.75	3.38	5.91	1.09
Washington	6.66	3.88	3.73	5.93	5.71	4.32	1.15	.84	4.57	1.46	5.09	.59
Median	9.02	4.76	4.81	5.70	6.68	5.57	2.36	1.00	3.63	1.95	4.46	.49

[1] 1 kilogram=2.2046 pounds; 1 liter=1.0567 quarts. [2] Not available. Source: U.S. Agricultural Attachés.

Poultry and egg prices dropped in many of the capitals surveyed, with a 13-percent dip in U.S. broiler prices and a 51-percent decrease in French egg prices leading the declines.

November 1 broiler prices in Brussels were down 3.3 percent from the high level reached in September 1978.

The U.S. Agricultural Attaché in Rome reports broiler and egg prices down slightly as a consequence of declining consumption this season.

London's broiler prices were down slightly from the September 6 survey as domestic production was up. Egg prices, however, have recovered somewhat as overproduction in recent months eased.

Continued overproduction of eggs in Belgium, coupled with reduced export opportunities, resulted in a 7.7-percent drop in retail egg prices in Brussels to the lowest level since July 1975.

Egg prices in The Hague also fell to the lowest level since July 1975 as a result of oversupply.

One notable exception to the downward trend in egg prices was in Pretoria, where egg prices rose 9.3 percent above the September 6 survey following an expensive advertising campaign by South Africa's new National Egg Producers' Cooperative (NEPCO).

Dairy. In 10 of the 16 surveyed capitals, butter prices rose during September-November, while cheese and milk prices remained somewhat stable.

The greatest percentage increase since September for butter was recorded in Mexico City, where the price jumped 28 percent.

November 1 cheese prices in The Hague were up somewhat because of a sudden upsurge in export demand.

Produce. In almost all of the capitals reviewed, prices for potatoes, apples, and onions fell as domestic supplies were generally abundant.

Apple prices in Brussels have fallen 23 percent since September and are 37 percent lower than prices at the beginning of November of last year, reflecting this year's ample market supplies compared with the short 1977 crop.

On the other hand, tomato prices in Brussels—up 7 percent from September as the marketing season draws to a close—have risen 22 percent from a year ago and will probably continue to trend upward during the next few months.

In London, prices of U.K.-grown fruits and vegetables are at their lowest levels since 1974.

Low prices for apples, potatoes, and onions reflect plentiful supplies of most green and root vegetables, while the more than 50 percent rise in tomato prices points to the beginning of reliance on imports.

Special sales promotions in Mexico City resulted in lower prices for apples, oranges, potatoes, and rice.

Orange prices were markedly lower in Ottawa in November as a result of wide availability of South African varieties.

Data Qualifications. Food price indexes, which reflect food price changes in general, are obtained from official government sources. They are based on local-currrency prices, and are not directly affected by exchange rate fluctuations.

Food prices of selected commodities are obtained by U.S. Agricultural Attachés on the first Wednesday of every other month. Local currency prices are converted to U.S. prices on the basis of exchange rates on the date of compilation. Thus, shifts in exchange rates directly affect comparisons between time periods.

The objective of the survey is to reflect the level of prices in other countries of items normally purchased by U.S. consumers. Exact comparisons are not always possible, since quality and availability vary greatly among countries. An attempt is made to maintain consistency in the items and outlets sampled, but they are not necessarily representative of those in the reporting countries. □

Fats and oils. In The Hague, a significant (19 percent) reduction in the price of cooking (soybean) oil reportedly mirrored the lower price for soybeans on the Dutch market, which particularly reflected the appreciation of the guilder. The Agricultural Attaché adds that margarine prices may follow this trend. □

Export Directory Updated by FAS

A new FAS publication, "Export Directory 1978/79," presents updated lists of Federal and State Government agencies, trade associations, and other organizations available to assist exporters and potential exporters in the marketing of their products.

Free copies may be obtained by writing FAS Information Services, Room 5918-S, USDA, 14th St. and Independence Ave., S.W., Washington, D.C. 20250. □

s in Selected Countries [1]

00	Percent change from Prev. month	Three months	One year
.3	+6.8	+21.4	+159.5
.9	+1.2	+ 2.6	+ 8.7
.9	+ .5	+ 1.9	+ .5
.2	+1.7	+ 9.8	+ 44.0
.0	−2.3	+ .2	+ 14.9
.5	+ .6	+ 1.8	+ 8.5
.7	+ .9	+ 2.5	+ 8.2
.6	−1.1	− 2.5	+ .1
.6	+1.5	+ 2.9	+ 12.6
.7	+1.9	+ 4.3	+ 4.3
.9	+ .2	+ 3.4	+ 15.2
.4	+ .2	+ 1.8	+ .6
.8	+1.9	+ 8.2	+ 15.2
.1	+ .9	+ 1.0	+ 5.8
.9	+ .1	− .2	+ 7.2
.4	.0	+ .9	+ 10.1

l Capitals, November 1, 1978

rent exchange rates]

Milk, hole, liter	Oil, cooking, liter	Tomatoes	Onions, yellow	Potatoes	Apples	Oranges, dozen	Bread, white, pkgd.	Rice	Sugar
.59	2.41	1.17	0.29	0.26	0.66	2.89	1.01	1.70	0.84
.27	1.11	.65	.22	.34	1.82	.47	1.02	.50	.38
.62	2.04	1.52	.41	.17	.83	2.11	1.12	1.21	1.12
.26	2.24	3.14	.28	.55	.85	.93	.66	.94	.62
.49	2.23	1.54	.46	.52	.77	.71	1.00	.83	.46
.61	2.72	3.12	1.07	.75	1.16	3.12	1.74	1.65	1.71
.42	1.75	1.84	.33	.20	.55	2.20	.71	1.01	.58
.29	1.09	.65	.47	.34	.87	.27	.57	.49	(2)
.61	1.78	1.49	.38	.21	1.17	1.54	.74	1.23	.46
.49	1.60	1.36	.52	.25	.80	2.30	2.21	1.51	.70
.38	1.43	.70	.52	.30	.86	1.00	.32	.97	.40
.48	1.06	1.09	.61	.30	.85	2.69	.83	1.27	.81
.46	5.05	1.96	1.33	.53	1.18	2.95	2.19	1.28	.95
.51	1.28	1.24	.34	.15	.18	1.83	.68	1.13	.85
1.09	2.28	2.49	1.07	1.13	1.97	2.85	1.44	1.60	1.27
.59	2.24	1.37	.33	.73	1.12	1.63	1.26	.99	.66
.49	1.91	1.43	.44	.32	.86	1.97	1.01	1.17	.70

Changing Policies Shift USSR From Net Farm Exporter to Importer

By Judith G. Goldich

Widely flutuating crop results have played a part in the USSR's recent emergence as a major importer of grains and soybeans. Just as important, however, has been the Government's stress since 1971 on improving the diet of its people, chiefly by boosting supplies of livestock products. Prospects for continued large Soviet imports of grain this year—despite its record grain crop—underline the importance of this consumer-oriented policy.

Soviet agriculture underwent some surprising changes during the 1970's with strong and continuing repercussions on world farm trade—including that of the United States.

A net grain exporter prior to 1972, the USSR not only shifted abruptly to a net import position that year, but also proceeded to import some 94 million metric tons of grain and 4.6 million of soybeans during 1972-75.[1] Simultaneously, it was boosting imports of other farm products—including meat when it was available at bargain rates—while having difficulty maintaining exports of sunflowerseed oil.

The impact on world trade has been dramatic. The United States, for instance, shipped only $135 million worth of farm products to the USSR in fiscal 1971. Exports subsequently soared to $1 billion in fiscal 1973 in the wake of record grain purchases by the USSR, and then went on to set a record $1.9 billion in fiscal 1976. During that peak year, the Soviet Union accounted for 7 percent of total U.S. agricultural exports and ranked as the fourth largest U.S. farm market.

While U.S. farm exports to the USSR declined to $1 billion in 1977, they again headed upward in fiscal 1978, reaching a near-record $1.8 billion.

This altered Soviet trade position reflects in part the wide fluctuations in Soviet crop output during the 1970's. Just as important, however, have been shifts in policy that promise to keep the USSR in the import business for some time to come.

The 1970's Shift

Following the Soviet Government's introduction of consumer-oriented policies in the late 1960's, Soviet citizens began to expect improvements in their living standards.

Expanding the supply of nonfood consumer goods was a part of the plan, but a part that could be achieved only slowly as the Soviet economy retooled. The most visible and easiest item to increase was food, particularly meat, consumption of which previously had been low.

Consequently, the Ninth Five Year Plan that began in 1971 stressed diet improvement, to be attained chiefly through increasing production of meat and livestock products.

According to directives of the Ninth Plan, meat output was to jump to an average of 14.3 million tons in 1971-75—nearly one-quarter more than the 11.6-million-ton average achieved in 1966-70. Similarly meat output in the current plan is to rise to an average of 15.0 million to 15.6 million tons.

Output in the first 2 years of the plan averaged 14.2 million tons.

Output goals were backed up with increased grain and oilseed production targets. Investments in the agricultural sector were also scheduled to be pumped up sharply.

However, programed increases in feed supplies proved insufficient to support livestock and product goals. Increasing grain supplies required expansion in grain area. The available land was located in marginal climatic regions. Fallow area was reduced, thus increasing the variability of the size of the crop.

When it became clear that Soviet agriculture would not achieve the feed production necessary to reach these goals, two options appeared;

- Abandon the long-term livestock goals—thus sacrificing livestock herds—in order to reduce feed requirements in years of crop shortfall; or
- Maintain livestock goals by obtaining feed ingredients from outside sources to offset shortfalls.

The Soviets chose the latter course as a part of the ninth plan. They made an abrupt entry into world markets in 1971 for large quantities of grains and oilseeds as a result of the 168-million-ton grain crop harvested that year.

Grain. During 1972-77, Soviet grain output followed an undulating course that curved as low as 140 million tons in 1975 and then jumped 50 percent to a record 224 million tons the following year.

That same period saw an estimated 25-percent increase in grain consumption for livestock feed.

Even in times of abundant domestic crops, Soviet grain production fell short of requirements because of the added demand generated by growth in the livestock sector. The 1977 harvest of 195.7 million tons, for instance, was the fourth largest on record; yet it is estimated to have been 32 million tons short of total grain requirements.

Soviet grain imports rose accordingly, climbing from 15.5 million tons in calendar 1972 to a record 24 million in 1973. In the succeeding 4 years, according

[1] *Unless otherwise noted, all data are calendar year basis.*

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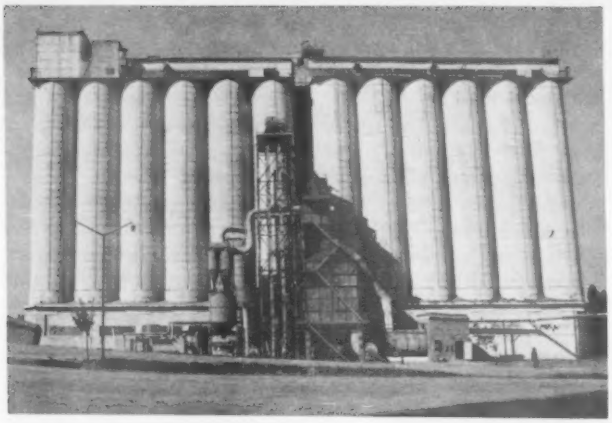

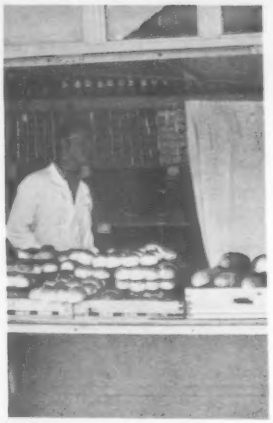

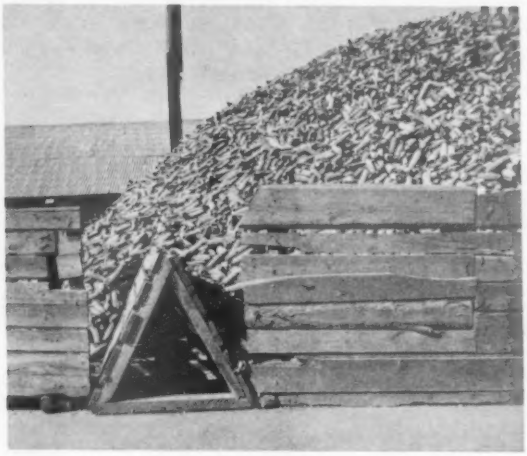

Clockwise from top left: Grain receiving station at Slavyanskna-Donau; bread at a food shop in Bukhara, Uzbekistan; corn moving from combine to truck; and ear corn at a receiving point waiting to be shelled and dried mechanically.

to Soviet data, imports remained large but fluctuated dramatically from 7 million tons to 16 million to 21 million and finally to nearly 11 million in calendar 1977. Of the estimated 1977 import total, about 6.4 million tons were wheat and 4.1 million, corn.

For calendar 1978, the country is expected again to import substantial quantities of grain, despite the record 1978 grain harvest of 230 million tons.

Beginning in 1972, the United States and Canada generally have supplied about four-fifths of Soviet wheat imports. While not the largest producers (the USSR produced close to one-fifth more wheat than these two combined in 1976), these countries have the largest proportion of the world's exportable surplus of wheat.

In the corn market, on the other hand, the United States far outranks other suppliers, including Argentina, Brazil, and Hungary.

The Soviets also have continued to export—as well as import—grain, although their ability to supply traditional markets has been sharply curtailed at times. During 1972-75, the country exported an average of 4 million tons of wheat and around 1 million of coarse grain—mainly barley—each year. Information on USSR grain trade by volume was not reported in 1977. Exports in 1977 totaled an estimated 3.5-3.7 million tons. Exports to allies in Eastern Europe accounted for about three-fourths of the wheat and half of the coarse-grain exports in recent years.

Oilseeds and products. Soviet oilseed production is severely limited by climatic conditions and at present is substantially below Western estimates of requirements. Also, requirements are increasing as expanding livestock inventories boost demand for oilseed meal and as vegetable oil production continues below plan.

Again, trade totals reflect this discrepancy. Oilseed imports shot up markedly in 1972 and 1973, declining in 1974 but rising again in 1975, reaching almost 2 million tons in 1976. Another decline to around 1.5 million tons occurred in 1977.

So far, soybeans from the United States and Brazil have dominated imports, although copra and peanuts have also been purchased. The USSR imports only minor quantities of oilseed meal—all of it reportedly peanut meal from India.

Despite an apparent gap between production and optimum supply, vegetable oil continues to be a fairly important Soviet export. In the past, the USSR exported sunflowerseed oil to a number of countries in both Eastern and Western Europe. However, exports have been low in the last 3 years, totaling only 237,000 tons in 1977—less than half the 1966-70 average of of 563,700 tons and the 1974 level of 481,200 tons.

Meat. Emphasis on ex-

Continued on page 13

U.S. Ups Farm Exports to USSR

Agricultural exports from the United States to the Soviet Union in fiscal 1978 (October-September) reached nearly $1.8 billion, only slightly short of the record set in 1975/76 and well ahead of 1977's disappointing total.

Near-record volume and value shipments for both wheat and corn accounted for almost all of the recovery.

Grain shipments accounted for 85 percent of the value of all agricultural exports, with corn—valued at $1.1 billion—supplying the largest single share.

Soviet total corn imports are believed to have nearly doubled during fiscal 1978 in response to the disappointing 1977 grain crop, which was the fourth largest on record (195.5 million tons) but 32 million tons below domestic requirements.

U.S. wheat exports to the USSR reached 3.4 million tons, 14 percent more than in fiscal 1977. The United States probably accounted for about half of Soviet wheat imports, while the Soviets accounted for only a tenth of total U.S. wheat shipments.

Rice was the only other U.S. grain exported to the USSR in fiscal 1978.

Exports of U.S. soybeans to the USSR (744,180 tons) were near the year-earlier level. Soviet oilseed, oilmeal, and vegetable oil requirements are increasing.

Disappointing harvests of the most important oilseed crop—sunflowerseed—since 1974 have broadened the gap between demand (for edible oil and protein meal) and domestic supply.

U.S. exports of dairy and beef breeding animals to the USSR during 1978 have included 460 head of Santa Gertrudis and some Holstein-Friesian and Brown Swiss animals, compared with 107 head of dairy breeding animals and no beef breeding animals in 1977, and 218 dairy animals and 14 beef breeding animals in 1976.

The Soviets also imported small quantities of edible almonds, linseed oil, and soybean cake and meal from the United States.

U.S. agricultural imports from the USSR reached a record $12.3 million. Furskins and casein accounted for most of the total.

Prospects for the current fiscal year are mixed. U.S. grain exports are expected to exceed the 6-million-ton minimum purchase requirement under the 5-year U.S.-USSR agreement. The United States has authorized Soviet imports of up to 15 million tons of U.S. grain for the year ending September 30, 1979.

Import demand is expected to remain relatively strong despite the record grain crop harvested this fall, as a result of increasing feed requirements for the livestock sector.

USSR soybean imports, on the other hand, are forecast at around 1 million tons, up some from the fiscal 1978 level—*Judith Goldich, FAS.*

Value of Selected U.S. Agricultural Imports From the USSR, 1975/76–1977/78

[In Thousand Dollars]

Commodity	1975/76	1976/77	1977/78
Furskins	5,804	6,769	8,379
Bristles, crude and processed	9	—	—
Essential oils and resinoids	138	75	36
Casein and casein glue	1,152	1,158	2,429
Gelatin, edible and inedible, and glue	80	43	9
Licorice root	671	565	—
Wine	26	1	1
Other	1,026	1,729	1,447
Total	8,908	10,340	12,301

Dash denotes negligible or none.

Selected U.S. Agricultural Exports to the USSR, Volume and Value, 1973/74–1977/78 [1]

	Volume					Value				
	1973/74	1974/75	1975/76	1976/77	1977/78[2]	1973/74	1974/75	1975/76	1976/77	1977/78[2]
	1,000 MT	1,000 MT	1,000 MT	1,000 MT	1,000 MT	1,000 Dol.	1,000 Dol.	1,000 Dol.	1,000 Dol.	1,000 Dol.
Wheat	1,329	2,246	3,046	3,008	3,413	120,937	410,580	446,153	446,200	412,945
Corn	2,939	953	10,517	2,910	10,484	172,156	148,056	1,304,095	332,864	1,099,817
Barley	—	—	—	—	—	—	1	—	—	—
Oats	—	—	65	—	—	—	2	7,437	—	—
Rice	—	10	63	71	33	—	4,787	19,708	19,240	11,948
Total grain	4,268	3,209	13,691	5,989	13,930	293,093	563,426	1,777,393	798,304	1,524,710
Soybeans	18	—	324	825	744	5,507	1	62,975	218,689	199,738
Citrus fruit	4	11	13	13	12	947	2,356	2,888	2,888	3,075
Hops and hop extract	2	1	1	2	1	2,658	1,816	2,611	2,781	3,401
Whole cattle hides (1,000 pieces)	329	661	125	162	287	6,204	5,825	1,201	2,953	7,862
Tallow, inedible	—	40	—	—	44	—	13,988	—	—	18,744
Value of nongrain exports	—	—	—	—	—	49,336	32,550	75,322	265,114	271,844
Total value of exports	—	—	—	—	—	342,429	595,976	1,852,715	1,063,418	1,796,554

[1] Fiscal years ending September 30. Excludes transshipments. [2] 1977/78 figures are preliminary. Dash denotes negligible or none.

Continued from page 11

panding domestic meat production so far has moderated Soviet meat imports, although they did hit a record 617,000 tons in 1977. Large imports in 1974, 1975, and 1977 were the result of abundant meat supplies and low prices on the international market.

Bulgaria, France, the Netherlands, Australia and New Zealand have generally accounted for most known imports, although the Soviets purchased a record 77,000 tons of meat from Romania in 1977. In addition, the United States has supplied small quantities of poultry meat during the past 2 years.

Cotton. The Soviet Union ranks as one of the world's largest cotton producers and a major U.S. competitor in export markets for medium-staple cotton. Exports reached a record 972,500 tons in 1977 and went primarily to Eastern Europe, Cuba, France, the United Kingdom, and Japan.

The Soviets also generally import 100,000-200,000 tons of long-staple cotton yearly. Suppliers have included Afghanistan, Iran, the Sudan, and Syria. Egypt also was a large supplier in the past. However, Egypt in 1977 banned any further cotton exports to the USSR. This ban is still in force.

Sugar. Last year, the USSR imported record quantities of raw and refined sugar—respectively, 4.3 million and 458,000 tons. By comparison, Soviet imports of raw sugar in recent years have totaled 1.5-3.0 million tons, with Cuba by far the largest supplier.

Here again, the USSR has phased out of a net exporter role for refined sugar, as domestic needs have outpaced supply. Exports of refined sugar have fallen from 500,000-1.3 million tons a year in the 1960's to less than 100,000 tons currently.

USSR grain imports through 1980 will probably continue to be responsive to the size of the domestic grain crop, although steadily rising requirements will exert pressure on the Soviets even in good production years.

The U.S. Department of Agriculture is forecasting that Soviet Union grain imports will reach 15 million tons in the U.S. fiscal year that began October 1, 1978, compared with 23 million last fiscal year. This 1977/78 forecast includes 4 million tons of wheat and 11 million of coarse grains and comes despite the record grain harvest this year in the USSR.

Projected stock rebuilding or protection against possible future production shortfalls and continuing large livestock feed needs support the import forecast at this level.

Of the 15-million-ton total, the United States is expected to supply more than the minimum purchase requirement (6 million tons) of the 5-year U.S.-USSR Agreement. The United States invited Soviet imports of up to 15 million tons of U.S. grain in the year ending September 30, 1979, during consultations on the long-term grain agreement this fall in Washington.

Prospects for Soviet imports of soybeans and other oilseeds are more difficult to assess.

Soviet planners recognize the protein deficit problem but consider it to be a temporary phase. It is maintained that eventually domestic grain and oilseed production will meet demand except in very unfavorable years.

How Soviet meat import trade will evolve is an open question. Certainly the USSR could put substantial imports of meat to good use, as planned meat production through 1980 probably will be substantially less than demand. At present, however, it appears that various constraints—including foreign exchange priorities, financing, transportation, and distribution—will continue to limit imports.

Soviet cotton exports, on the other hand, seem likely to grow. Steady increases in production have already enlarged exportable supplies, and further production gains are likely.

Long-term Prospects

Looking further ahead, constraints facing the current—as well as any new—regime are becoming increasingly troublesome.

In finance, the competition for each unit of available hard currency to pay for imports from the West is becoming severe. The Soviets are engaged in a widespread attempt to modernize their industrial sector, which eats up substantial amounts of hard currency. And, of course, they also import some consumer goods.

In internal finance, agriculture could be perceived as receiving more than its share of outlays already, although continued large investments in agriculture obviously will be necessary.

Substantial sums are being—and will have to continue to be—spent on mechanizing agriculture in the USSR.

Labor constraints are becoming increasingly serious, even in agriculture.

Thus, until the Soviet Union achieves its longer-range production goals, the immediate commitment to maintaining and expanding livestock production will require significant, if variable, imports of grain, oilseeds, and oilseed products in the years ahead.

The Soviet market for grains and oilseeds is directly related to variable domestic production of these products and increasing internal demand. While a number of factors may act to restrain imports, it seems likely that the market for these and possibly other products from the United States bears significant potential for future development. □

Brazil Boosts Poultry Meat Exports

Brazil's booming poultry industry will produce an estimated 790,000 metric tons (read-to-cook basis) of chicken meat in calendar 1978, 14 percent more than in 1977, according to a report from the U.S. Agricultural Officer in São Paulo.

Exports—mainly to Middle Eastern markets—this year are expected to reach 45,000-50,000 tons, and commitments for 1979 point to a level of around 60,000 tons in 1979. Brazilian exporters are trying to expand their foreign marketing, particularly in the Far East.

Broilers are expected to account for about 725,000 tons of this year's total chicken meat production. A further increase in broiler output of 10 percent is expected for 1979.

Brazil offers a 15 percent tax credit (f.o.b. value) on broiler exports. In addition, a portion of broiler production for export can be financed with Government-subsidized credit. □

United Kingdom Expands Imports of Cotton From Colombia, Turkey

Lower cotton prices and the expectation of price rises boosted U.K. imports of raw cotton 11 percent in 1977/78 (Aug.-July) despite sluggish textile retail and industrial demand.

However, imports of raw cotton from both the United States and the USSR, last year's biggest sources, fell, downstaged by a boom in cotton imports from Colombia and Turkey. The Turkish and interior Colombian cotton crops had increased over 1976/77 levels, providing a larger exportable surplus for the U.K. market.

Imports of U.S. unbleached cloth and finished fabric also were off from those of the previous year.

The size of future U.K. cotton product imports is difficult to determine at this time because of the recent application of the GATT Multi-Fiber Agreement (MFA), which may change the trading pattern of most suppliers to the U.K. market, including the United States.

Textile and clothing exports accounted for 8 percent of the United Kingdom's export trade in 1977, amounting to close to $4 billion in value and providing employment for more than 800,000 people.

The star performer was clothing exports, with overseas sales up over 51 percent in 1977. Textile exports are almost double their 1973 value. In man-made fibers, export volume has been maintained, which, in the current market, is no small achievement.

U.K. **imports** of raw cotton rose between 1976/77 and 1977/78 from 101,237 metric tons to 112,642 tons.

The U.S. market share dropped from slightly more than 15 percent in 1976/77 to about 12 percent in 1977/78, as U.S. shipments fell from 15,437 tons to 13,339 tons.

Colombia, with 23,042 tons, and the Soviet Union, with 22,155 tons, were the United Kingdom's most important suppliers in 1977/78. Colombian shipments nearly doubled, rebounding from the disastrously low level of the year before.

The United Kingdom's cotton cloth imports—both unbleached and finished—rose significantly in 1977/78. Total imports of unbleached cloth were 8 percent greater than the volume shipped a year earlier, climbing from 54,955 tons to 59,478 tons. Pakistan, with a 69 percent increase in shipments to 13,605 tons, was the major source. The United States supplied just 108 tons, amounting to a market share of less than 1 percent.

Although U.K. data are available for only the first 7 months of 1978, finished cloth imports this year apparently were 31 percent greater than the volume taken during the same period in 1977—18,471 tons versus 24,245 tons.

The United States provided a significant amount of both year's shipments, although total shipments and the U.S. market share were lower during this period in 1978 than in 1977. The U.S. total fell from 4,430 tons to 3,534 tons, and the share dropped from 23 percent to 21 percent.

U.K. imports of cotton yarn in the first 7 months of 1978 were 47 percent higher than in the same period the previous year, rising from 14,289 tons to 20,981 tons. Some Mediterranean countries again were the principal sources of U.K. yarn imports and the areas of greatest growth.

Italy's shipments to the United Kingdom rose from 677 tons to 1,726 tons, Greece's from 1,084 tons to 2,030, Turkey's from 1,493 tons to 3,578 tons, and Portugal's from 1,689 tons to 3,799 tons.

However, the MFA, which went into effect January 1, 1978, limits shipments of cotton yarn, fabrics, and some knitted and woven products to the United Kingdom and the European Community. In recent years, these products accounted for over 60 percent of total U.K. cotton product imports.

Under the MFA, cotton cloth imports will be allowed to rise by only 0.7 percent to 70,425 tons and cotton yarn imports by 1.1 percent to 22,981 tons. In 1976/77, imported cotton yarn held a 24-percent market share, and cotton cloth a 61 percent share. Woven shirt imports had a 68 percent share of the market.

U.K. clothing **exports** in the first half of 1978 were running about 20 percent higher than in the comparable period the previous year. They were expected to be even stronger in the last half of the year since traditionally that is the time heavyweight garments are sold.

About half of U.K. clothing shipments go to the other EC countries. Some 22 percent of the total goes to non-EC countries in Western Europe. By 1980, U.K. clothing exports are expected to reach about $2 billion.

The United Kingdom is especially sanguine about export possibilities in many European countries, particularly West Germany. The West German knitwear industry has shrunk in size under the impact of low-cost imports from outside the EC, creating needs that can be met only by imports. And since, at the present time, the EC's import restraints benefit EC members particularly, the United Kingdom is in a good position to succeed in the German market.

The British knitwear industry is the largest in Europe, and individual units of the U.K. sector also are among Europe's largest. □

Based on a dispatch from the Office of the U.S. Agricultural Attaché, London.

Yugoslavia Ups Poultry Output

Demand for poultry meat has been on the rise in Yugoslavia in recent years and production is increasing in an effort to keep pace. Domestic sales are strong, leaving little room for development of export markets.

During the 20-year period, 1957-76, Yugoslavia more than doubled its total meat production, including poultry meat, from 492,000 metric tons to slightly more than 1.05 million tons, although the population has grown by just 21 percent from 17.8 million to 21.6 million.

The poultry meat component of this total meat output rose almost fourfold, from 56,000 tons to 204,000 tons. Preliminary data for 1977 indicate total poultry meat production increased another 5 percent to about 215,000 tons, of which broiler meat made up almost 80 percent.

Plans call for broiler production to nearly double to about 325,000 tons by 1985.

Behind the expected expansion in poultry meat outturn, especially of broiler meat, is the long-term nature of the current growth trend and favorable producer prices now being paid.

Under Yugoslavia's so-called Green Plan for Agriculture, producer selling prices and protective prices are set by the Government. For 1978, the selling price is US$1.27 per kilogram and the protective price $1.20 (slaughter-weight basis) per kilogram. These prices are in effect maximum and minimum market prices.

Total meat consumption between 1957 and 1976 rose from 26 to 47.4 kilograms per capita. Poultry meat accounted for 11 percent of the total at the beginning of the period and over 20 percent at the end, for a per capita rise from 3.1 kilograms to 9.5 kilograms. In 1977, per capita consumption of poultry meat reached an estimated 9.8 kilograms, but is expected to stagnate in 1978, owing to larger pork supplies.

The drive to modernize and expand Yugoslavia's broiler industry got underway during the early 1960's when the Government made available at low interest rates large sums for expansion. The interest rate was only 2 percent on loans for construction and buying new equipment, with a 30-year repayment period. For expanding flocks and buying breeding stock, the repayment period was 10 years.

Most of the expansion was carried out in the Republics of Slovenia, Croatia, and Serbia.

Yugoslavia's expansion and modernization success can be gaged by the country's dramatic drop in broiler-feed conversion ratios and rises in rates of gain. In 1962, for example, one of the country's more efficient kombinats (farms involved in food processing) obtained an average live weight of only 1.04 kilograms at 69 days and a conversion ratio of 3.13:1.

By 1976, this same operation had an average live weight of 1.81 kilograms at 55 days and a conversion ratio of 2.3:1 from an output of 4 million broilers.

However, about one-third of total broiler production still takes place in the private and cooperative sectors, where rates of gain are lower.

The introduction of U.S. breeding stock was an important factor in increasing the efficiency of Yugoslavia's broiler industry. However, in more recent years, Yugoslavia has developed its own breeding capability at Rodica, near Ljubljana, Slovenia, from which new commercial breeds are being introduced.

In the larger Yugoslav cities, poultry is marketed primarily as whole, dressed, fresh, and chilled birds. Only small amounts of frozen poultry are sold, although some is exported. In recent years, chicken parts have been introduced, but these make up a minor part of total sales.

Traditionally, the head and feet are sold with the dressed bird, but this method of merchandising is changing as Yugoslav packaging methods become similar to those in the United States.

As with producer prices, uniform, countrywide retail prices are also fixed by the Government. Prices in April 1978 ranged from $1.74 to $1.91 per kilogram, depending on the type of dress and the packaging.

Although Yugoslavia has been making strong efforts to boost foreign poultry-meat sales, export prices are high and quality low, compared with those of competing product.

Fifteen years ago, Yugoslav poultry meat exports, mainly broilers, totaled 2,000 tons. They rose to 4,000 tons in 1975, but dropped to about 1,000 tons in 1977 and 1978. Principal markets have been in Western Europe.—*James K. Freckmann, U.S. Agricultural Attaché, and Milan N. Kukic, Agricultural Assistant, Belgrade.* □

Foreign Agriculture

Vol. XVI No. 49
December 4, 1978

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The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of this Department. Use of funds for printing *Foreign Agriculture* has been approved by the Director, Office of Management and Budget, through June 30, 1979. Yearly subscription rate: $38.00 domestic, $48.00 foreign; single copies 80 cents. Order from Superintendent of Documents, Government Printing Office, Washington, D.C. 20402. Contents of this magazine may be reprinted freely. Use of commercial and trade names does not imply approval or constitute endorsement by USDA or Foreign Agricultural Service.

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$4-Million Sales Expected From Dairy Cattle Fair at Cremona

An incomplete tally of onsite sales by USDA cooperators and U.S. firms that participated in the Dairy Cattle Fair at Cremona, Italy, September 13-24, shows a total of about $440,000. Projected sales for the next 12 months may reach another $3.5 million.

Nearly all of these sales were of high-quality U.S. dairy breeding cattle of the kinds examined by the nearly 150,000 persons who visited the U.S. dairy cattle area during the 12-day event.

U.S. dairy cattle were the main attraction at the Cremona show, but U.S. Quarter Horses—displayed by the Italian Quarter Horse Association—also drew strong attention. In recent years, Italian cattle breeders and riding clubs have bought this type of horse for work and pleasure.

U.S. dairy breeding cattle have been exported to Italy in sizable numbers. In 1977, 637 dairy breeding cattle were inspected for export to Italy, mostly Holsteins. Italy ranked third in Europe that year as the largest market for U.S. dairy breeding cattle.

Seminars were held at the Cremona show by the National Association of Animal Breeders (NAAB), Holstein-Friesian Association of America (HFAA), and the American Soybean Association (ASA). In addition, 26 Quarter Horses participated in competitive activities. The judge for these events was W. Reed, President of the American Quarter Horse Association (AQHA), which awarded trophies to the winners.

A film about "The Horse That America Made" was shown twice, followed by a reception for horse breeders. About 250 persons attended the seminars and some 200 saw the film.

Also taking part in the Cremona Fair, the 14th of its kind, were the U.S. Feed Grains Council and seven U.S. firms.

USDA's Foreign Agricultural Service sponsors participation each year in livestock shows and food exhibits in many countries. Individuals and organizations interested in participating in such events should address inquiries to the Director, Export Trade Services Division, Foreign Agricultural Service, USDA, Washington, D.C., 20250 or telephone (202) 447-6343. □

Continued from page 5

Future of U.S. Farm Trade

less of a tendency for the United States to price itself out of foreign markets.

The growing separation of income policies from commodity policies is another positive aspect of the policy framework. The use of the target price concept permits market prices to seek their market-clearing levels, within the limits of the price corridor, and income problems are dealt with by means of direct deficiency payments to producers. Through these mechanisms U.S. products remain competitive in international markets.

Finally, the farmer-held reserves provide buffer stocks that give the United States a reasonable chance of remaining a reliable supplier to foreign countries, and make some contribution to developing more stable international markets. This increased stability reduces the incentive for self-sufficiency on the part of other countries. The turning away from self-sufficiency provides more market potential for the United States and other exporting countries in the future.

Although domestic policy has evolved in the direction of making the United States more competitive in international markets, there will be continuing difficulties in preserving that policy framework. Farmers will perceive a strong link between the prices they receive and their incomes. The political pressures to raise the loan level and with it market prices will be great. Similarly, it remains to be seen whether it will be possible politically to trigger the farmer-held reserves into the market when prices rise.

One of our major challenges is to help U.S. citizens overcome their fear of development and progress in other countries. The recent emergence of competitive threats from countries such as Brazil, South Korea, Taiwan, and Singapore has given rise to demands that the United States limit its technical assistance to other countries and reduce the foreign aid budget even further than it already has been.

To do that would be extremely shortsighted. U.S. prosperity will be determined in large part by economic progress in other countries. A retreat to Fortress America is no longer a viable alternative. □